



Tel: +32 2 778 01 30
Fax: +32 2 778 01 43
@: bdo@bdointernational.com
www.bdo.global

BDO International Limited
Contact address:
The Corporate Village, Brussels Airport
Elsinore Building, Leonardo Da Vincilaan 9 - 5/F
1930 Zaventem, Belgium

18 April 2023

Mr. Willie Botha
IAASB Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 5th Avenue
New York 10017
USA

Re: *Proposed International Standard on Auditing 500 (Revised) Audit Evidence*

Dear Mr. Botha,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Auditing and Assurance Standards Board (IAASB) Exposure Draft (ED-500) in respect of *Proposed International Standard on Auditing 500 (Revised) - Audit Evidence and Proposed Conforming and Consequential Amendments to Other ISAs*.

Our responses below describe those areas where we agree with the IAASB's approach as outlined in ED-500, and those matters or terminology that may require some further consideration, guidance or implementation support in order to provide for a successful implementation of the revised standard.

¹ BDO International Limited is a UK company limited by guarantee. It is the governing entity of the international BDO network of independent member firms ('the BDO network'). Service provision within the BDO network is coordinated by Brussels Worldwide Services BV, a limited liability company incorporated in Belgium. Each of BDO International Limited, Brussels Worldwide Services BV and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BV and/or the member firms of the BDO network.

Responses to Specific Questions

Overall questions

1. *Is the purpose and scope of ED-500 clear? In this regard:*

(a) *Does ED-500 provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?*

We agree that ED-500 serves as an overarching standard that deals with the auditor's responsibilities relating to audit evidence when designing and performing audit procedures. Further, ED-500 provides an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit and highlighted through inclusion of additional content on professional judgment and professional skepticism within the Scope section.

The extension of the Objective paragraph to include evaluation of information to be used as audit evidence also makes it clear that this is an equally important consideration within the principles-based framework. However, we are concerned with the clarity of paragraph 6(b) regarding the objectives of the auditor. To improve the clarity, we recommend separating paragraph 6(b) into two points as set out below:

- (b) Evaluate the relevance and reliability of information intended to be used as audit evidence to determine whether such information can appropriately be considered as audit evidence to support the conclusions that form the basis for the auditor's opinion and report, and
- (c) Evaluate whether the audit evidence obtained meets the intended purpose of the audit procedure(s) performed to provide a basis for the auditor to conclude whether sufficient appropriate audit evidence has been obtained.

We also support the new restructured Requirement sections that have been included within ED-500. We believe, as set out, these requirements correlate much more closely to audit evidence considerations during the course of an engagement than the extant structure.

(b) *Are the relationships to, or linkages with, other ISAs clear and appropriate?*

We believe that ED-500, including the Scope section and subsequent paragraphs 13, A2, A4, A40 and A45, provides a clear picture about how ED-500 links to other ISAs. As an 'overarching' ISA, it is inevitable that ED-500 makes reference to other ISAs (e.g., ISA 200, ISA 300 and ISA 330) throughout the requirements, the application materials and Appendix. Where these references are made, they are clear and appropriate.

2. *What are your views about whether the proposed revisions in ED-500, when considered collectively as explained in paragraph 10 above, will lead to enhanced auditor judgments when obtaining and evaluating audit evidence?*

We are concerned that the extent of documentation related to relevance and reliability that would be required over the high volume of information intended to be used as audit evidence is likely to lead to a checklist type approach. We would suggest that greater emphasis be placed on professional judgment regarding the documentation in paragraph 4 as follows.

"... This ISA further emphasizes exercising professional judgment and maintaining professional skepticism in planning and performing the audit, and in critically assessing audit evidence, by, for example:..."

The proposed inclusion of professional judgment in paragraph 4 better aligns with the section heading "*Professional Judgment and Professional Skepticism*" and various paragraphs in application materials (e.g., paragraphs A35, A48 & A53).

We consider that the proposed revisions in ED-500 may lead to enhanced auditor judgments when obtaining and evaluating audit evidence; in particular:

- The updated requirements focused on designing and performing audit procedures, and evaluation of audit evidence obtained including the nature, intended purpose and source of the information.
- The emphasis on professional judgment and professional skepticism and the reminders to consider and avoid bias.
- Sub-section content that more clearly differentiates information intended to be used as audit evidence prepared by a management's expert and doubts about the relevance and reliability of information intended to be used as audit evidence.
- The requirement set out in paragraph 13 as an overall stand back procedure to enable the engagement team to effectively consider and evaluate whether the evidence meets the original intended purpose of the audit procedure(s) alongside consideration of the consistency and/or inconsistency with other audit evidence. The new stand back requirement is also consistent with the concept of stand back requirements in other ISAs.
- The introduction of the concept of persuasiveness of audit evidence and its interrelationship with sufficiency and appropriateness of audit evidence in the application guidance. See our response to Question 7 for suggestions regarding the concept of persuasiveness of audit evidence.
- The inclusion of application guidance paragraphs A37 and A48-A52, relating to evaluation of information obtained from external sources intended to be used as audit evidence.

3. *What are your views about whether ED-500 has an appropriate balance of requirements and application material (see paragraph 11 above)?*

Overall, we believe ED-500 has an appropriate balance of requirements and application material. We are particularly supportive of the sequencing of the requirements and consequential impact that has had on the nature of the supporting Application Guidance. Starting the Application Guidance with a section dedicated to the nature of 'Audit Evidence and Audit Procedures' is particularly helpful as this ensures that auditors understand from the outset that audit evidence can apply in all stages of the engagement - including risk assessment procedures. This approach also provides greater clarity than the extant section on 'External Information Source' (which confused auditor-generated evidence with external sources and evidence from management experts).

However, we think it may be helpful to further specify that audit evidence is obtained in risk assessment procedures by updating the requirement in paragraph 8 as set out below:

"For the purpose of obtaining sufficient appropriate audit evidence, the auditor shall design and perform audit procedures, including risk assessment procedures."

Also, we would welcome additional guidance regarding the documentation and work effort that is expected of engagement teams when evaluating the reliability of information intended to be used as audit evidence (see also our response to Question 8). Notwithstanding the overarching nature of ED-500, we do think there may be a

need (through non-authoritative implementation guidance rather than Requirements or Application Guidance) to explain how to apply this standard in the context of certain situations or scenarios, including common situations and specific areas.

In respect of common situations (e.g., designing and performing purchase testing), guidance to explain audit evidence can be obtained for difference purposes from different audit procedures, for examples, audit evidence obtained:

- to support risk assessment procedures;
- to verify the reliability of the source of information;
- to provide assurance.

Specific areas might include:

- Design and performance of audit procedures and obtaining audit evidence relating to complex accounting estimates (e.g., valuation of unquoted complex financial instruments); and
- Considerations when designing and performing procedures in respect of cryptocurrencies.

4. *Do you agree that ED-500 is appropriately balanced with respect to technology by reinforcing a principles-based approach that is not prescriptive but accommodates the use of technology by the entity and the auditor, including the use of automated tools and techniques?*

While we agree with having a principles-based framework for using automated tools and techniques, we do not consider that there is adequate guidance on what constitutes, and how to evaluate, audit evidence in such an environment. We appreciate that in such a rapidly changing area, it is difficult to provide guidance that remains fit for purpose. However, we believe that further guidance is required to assist the auditor in:

- (i) designing and performing audit procedures through the use of automated tools and techniques; and
- (ii) evaluating information intended to be used as audit evidence and audit evidence obtained using automated tools and techniques.

We recommend that the IAASB considers developing application guidance regarding application and documentation principles around automated tools and techniques. Specific areas for this guidance could include:

- When further audit procedures using automated tools and techniques have been performed, guidance is needed on the factors that auditors need to consider to determine whether evidence obtained from using automated tools and techniques constitutes sufficient appropriate audit evidence. Providing factors that auditors need to consider will help the auditors to make the judgments, for example, in the following situations:
 - When automated tools and techniques are applied to check 100% of a population of purchases to ensure that for every purchase invoice, there was a purchase order number and a goods received note (GRN) with no exception, in what circumstance can the auditor consider the result as sufficient appropriate 'audit evidence' without performing additional substantive procedures?
 - To verify the payroll expense in the financial statements, auditors may use automated tools and techniques to reconcile the amount paid recorded in the payroll system to the amount paid in the accounting system, with the results showing that the records in the two systems agree with each other. Could the result be considered sufficient appropriate audit evidence for verifying the payroll expense or is it merely a test to assess the

completeness and accuracy of information intended to be used as audit evidence?

- Considerations for evaluating the relevance and reliability of information intended to be used as audit evidence when automated tools and techniques are used in risk assessment procedures and for further audit procedures designed to respond to an assessed risk.
- The documentation principles and how those principles are applied when automated tools and techniques are used in performing audit procedures to obtain audit evidence and in evaluating the relevance and reliability of information intended to be used as audit evidence.
- Identifying those situations, industry sectors, certain significant classes of transactions, account balances and disclosures when use of automated tools and techniques is more likely to be an appropriate part of the auditor's response to assessed risks.
- Examples of circumstances when the use of automated tools and techniques may give rise to unconscious biases, including automation bias and the possible procedures the auditor can perform to avoid biases in such circumstances.

5. *Do the requirements and application material in ED-500 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence?*

We believe that the requirements and application material in ED-500 do appropriately reinforce the importance of professional skepticism in obtaining and evaluating audit evidence. In particular, we support:

- The inclusion of a new section within the 'Scope' section (ED-500.4) which makes the link to the ISA 200 requirements and emphasizes that professional skepticism needs to be considered at both the planning and execution of audit evidence stages. We believe that ensuring ED-500 considers potential bias by auditors at the planning stage and not just at the evidential stage is important.
- The guidance relating to automation bias in ED-500.A22-A23, which explains how the use of automated tools and techniques may affect auditor bias, and how the awareness of such bias may help to mitigate impediments to the auditor's exercise of professional skepticism.

However, while we are supportive of the materials to reinforce the exercise of professional skepticism, we would recommend emphasizing the importance of maintaining professional skepticism when the auditor has doubts about the relevance or reliability of information intended to be used as audit evidence (ED-500.12) and when there are inconsistencies in audit evidence (ED-500.14) in the application materials. For example, adding specific examples or explanatory material would be helpful regarding how professional skepticism is maintained when determining whether modifications or additional audit procedures are necessary to resolve the doubts and/or when there are inconsistencies in audit evidence.

Specific Questions

6. *Do you support the revised definition of audit evidence? In particular, do you agree with the "input-output model" that information can become audit evidence only after audit procedures are applied to it?*

We support the revised definition of audit evidence and agree with the "input-output model". The previous definition with its reference to "accounting records underlying the financial statements" and its lack of focus on auditor activities that make the information of value to the audit (i.e., performance of some type of audit procedures) appeared outdated.

The “input-output” model articulated by the IAASB in ED-500 provides for more insight into the nature of the audit evidence and, as audit procedures can be performed during the planning, execution and completion phases of the audit, it appears to align itself more closely to the workflow of an engagement. Inclusion of the definition through to the ‘report’ is also welcome.

Taken together, the IAASB’s approach further encourages auditors to consider audit evidence obtained at all stages of the audit which can lead to an appropriate mindset (particularly when inconsistent information is identified). One of the challenges of auditing in the current environment is the surplus of data and informational sources (including concerns about the validity of those sources). By making it clear that information is audit evidence “...only after audit procedures are applied to it...” some clarity is provided to auditors as to the subset of information that is intended to be used as audit evidence.

However, further guidance to define what constitutes an audit procedure in the context of applying audit procedures to information intended to be used as audit evidence, and the extent of audit procedures needed for information to become audit evidence, would be helpful to assist the auditors in drawing conclusions about whether sufficient appropriate audit evidence has been obtained. For instance, it would be helpful to provide examples to illustrate circumstance where multiple audit procedures are required to ensure sufficient appropriate audit evidence has been obtained in respect of an assertion, while in other circumstances, only one audit procedure may be adequate.

7. *Does the application material appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?*

As set out in ED-500, in our view, the application material appropriately describes the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence. Inclusion of the concept of persuasiveness within the content is a welcome improvement on the extant standard and the content set out in ED-500.A6-A9 should assist auditors’ understanding of the interrelationship of these concepts. We particularly support inclusion of the link to fraud or error considerations and the consequential impact this is likely to have on the need for ‘more’ persuasive evidence.

We suggest that the IAASB further clarifies the concept of *persuasive* audit evidence in the application material by providing new examples (similar to the fraud or error example) and demonstrating the need to increase persuasiveness (or at least consider it) given the presence of certain factors. This will help auditors understanding of the concept of persuasive audit evidence and the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence as well as lead to increased consistency of application by auditors.

8. *Will the requirements and application material in ED-500 support an appropriate evaluation of the relevance and reliability of information intended to be used as audit evidence?*

We consider the requirements and application material (except for the area mentioned below) in this respect are clear, including the re-ordering and additions that have been made in this section. In particular we support:

- The requirement for auditors to design and perform audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative, or towards excluding audit evidence that may be contradictory.

- The need for auditors to be aware of automation bias when evaluating the relevance and reliability of information intended to be used as audit evidence.
- The explanation that the auditor's evaluation of relevance and reliability is an iterative process that involves professional judgment.
- The requirement to obtain an understanding about how the information prepared by management's expert has been used by management in the preparation of the financial statements when the auditor intends to use information prepared by a management's expert as audit evidence.
- The separation of the requirement (i) when auditor has doubts about the relevance or reliability of information intended to be used as audit evidence, and (ii) the requirement regarding inconsistencies in the auditor evidence obtained.
- The inclusion of attributes that may be considered by the auditor in considering the degree to which information intended to be used as audit evidence is reliable rather than provision of a list of generalizations about the reliability of audit evidence.
- The introduction of a new "stand back" requirement which considers all audit evidence obtained, including audit evidence that is consistent or inconsistent with other audit evidence, and regardless of whether it appears to corroborate or contradict the assertions in the financial statements.

The update in ED-500 does help the auditor in their evaluation of the relevance and reliability of information intended to be used as audit evidence. However, in respect of the relevance and reliability of information intended to be used as audit evidence, the required audit procedure is changed from "consider" in extant ISA 500.7 to "evaluate" in ED-500.9. We have concerns over the practical impact of this change in terminology on the extent of audit work and documentation as we have previously raised in our response to question 2 above.

Further, with respect to the appropriate documentation of the evaluation of the relevance and reliability of information intended to be used as audit evidence, we suggest that additional application material (or non-authoritative materials) and examples be provided that cover the documentation of:

- (a) the nature/extent of audit procedures to evaluate the relevance and reliability of information in an automated tools and techniques environment; and
- (b) the extent of the evaluation procedures required as this would help auditor's documentation of their evaluation of the relevance and reliability of different types of information intended to be used as audit evidence.

9. *Do you agree with the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances?*

In general, we agree with the separate conditional requirement to obtain audit evidence about the accuracy and completeness of information when those attributes are applicable in the circumstances. We believe the separate requirement highlights the importance of considering the accuracy and completeness of information, particularly information generated internally from an entity's information system, and is responsive to inspection findings from audit regulators.

However, we have concerns that, given the principles-based nature of the requirement, calling out the consideration of certain attributes (i.e., accuracy and completeness) specifically may have unintended consequences relating to the auditor's evaluation of the relevance and reliability of certain information intended to be used as audit evidence. The auditor may determine that it is not necessary to obtain audit evidence about other attributes of the information, for example, credibility and authenticity of the information source and whether the information is free from bias, even if they consider those attributes are applicable in the

circumstances, as those attributes are not specifically mentioned in the requirement. Further clarification in the application materials (or through non-authoritative materials) may be necessary to mitigate such unintended consequences.

In addition, we suggest that guidance is provided as to how auditors determine which attributes of relevance and reliability are applicable (paragraphs 9, 10 and A40) and how this is documented.

10. *Do you agree with the new “stand back” requirement for the auditor to evaluate audit evidence obtained from the audit procedures performed as a basis for concluding in accordance with ISA 330 that sufficient appropriate audit evidence has been obtained?*

As noted in our opening comments, we agree with the new “stand back” requirement for auditors to reconsider whether their evaluation of the audit evidence is appropriate before drawing a final conclusion. In addition, the “stand back” requirement reinforces a consistent thematic concept applied in other ISAs and provides another opportunity for auditors to reflect on whether the audit evidence meets the original purpose for which it has been obtained. This is a welcome improvement within ED-500.

In respect of the above, we recommend that ED-500 to include guidance regarding the documentation of how the auditor has complied with stand back requirements. For example, specific guidance on the documentation of:

- The evaluation of the audit evidence to ensure it meets the intended purpose of the audit procedures.
- How the auditor has considered all audit evidence obtained, including consistent/inconsistent audit evidence and audit evidence that appears to corroborate/contradict the assertions in the financial statements.

11. *Are there any other matters you would like to raise regarding ED-500? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.*

We found that the reference to information prepared by a management’s expert in ED-500.A49 is incorrect, it should be paragraphs A66-A78 instead of paragraphs A65-A77. Further, we suggest including a reference to fraud risk or ISA 240 to paragraph ED-500.A90 as it directly links to paragraph 14 rather than paragraph 12(b).

Request for General Comments

12. *The IAASB is also seeking comments on the matters set out below:*

- (a) *Translations—Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-500.*
- (b) *Effective Date—Recognizing that ED-500 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning approximately 18 months after approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.*



Translations: We continue to support IFAC efforts to make ISAs, and other pronouncements issued by the independent Standard-Setting Boards, accessible to users through effective and timely translation. Many of the auditing terms and concepts contained in ED-500 are present in other ISAs or defined in the ED, so at this stage, we do not foresee any immediate issues in respect of translation. To aid accessibility, we would continue to ask the IAASB to make their package of professional standards as accessible as possible through the e-International Standards online tool and would request that the most recent handbook (2021) be updated within this online tool as soon as possible.

Effective Date: We would support an Effective Date which has a minimum of 18 months from the point at which the final ISA is published. Although many firms may choose to adopt the new standard earlier, this timeframe would allow sufficient time for many audit firms' methodologies, tools, guidance and training materials to be updated.

Other matters: Where the IAASB plans to issue further guidance, we would strongly recommend that this is communicated clearly to all stakeholders and at the earliest opportunity. This will help firms to plan their approach to ED-500 implementation.

In addition, we are curious about the impact of ED-500 on the proposed ISA for Audits of Financial Statements of Less Complex Entities (ISA for LCE). We understand that the proposed ISA for LCE is a condensed summary of extant ISAs, including ISA 500, and that some of the documentation requirements may be less detailed in ISA for LCE. We look forward to the opportunity to comment on the conforming amendments to ISA for LCE as they related to ED-500.

We appreciate the opportunity to comment on ED-500. We hope that our comments and suggestions will be helpful to you in your deliberations and in the development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,

BDO International Limited

Daphna Smuckler

Global Head of Audit and Assurance